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depreciation that you received as a tax benefit is recaptured in your asset sale and treated as ordinary income for tax purposes. This will most likely push the seller up to the maximum individual tax rate for this portion of transaction value.

If the sale had been a stock sale of the S Corp, there would be no depreciation recapture and the entire gain would be at the individual long-term capital gain rate of the seller. For discussion purposes, let's say your personal income tax rate were 30%, then the asset sale would cause you to pay an additional 15% (difference between personal income tax rate and long term capital gain rate) on the recapture amount of \$2,000,000. You would realize \$300,000 in additional after tax proceeds by structuring the sale as a stock sale.

So, if your business is an S Corp or an LLC, you have taken the most important step in maximizing your after tax proceeds from your eventual business sale. The next most important step is to get a premium from an asset buyer over a stock buyer to compensate you for after tax proceeds based on depreciation recapture.

Given the impact of taxes in the sale of your business, it is a very sound idea to get your tax accountant involved in the planning process before you start getting offers. You need to be able to compare the different proposals with an eye towards after tax proceeds.

*Steve Pierson is a Partner in the Oak Brook, IL office of Seldon Fox, a national accounting and consulting firm. He has over 25 years of experience as a tax professional in public accounting. Steve has a wide range of experience in estate and succession planning, employee benefits and international tax planning for medium-sized businesses and has worked extensively in merger and acquisition transactions.*

*Steve is a member of the American Institute of Certified Public Accountants and its Tax Legislation Committee and Employee Benefits Committees. He is also a member of the Illinois CPA Society, the Iowa Society of Certified Public Accountants, and serves in many capacities with the Industrial Council of Northwest Chicago and the Profit Sharing Council of America. He has appeared on local cable network telecasts and has written tax related articles for several nationally published magazines.*

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